Selling Plug-in Vehicles: Lessons from the California Market

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Why have we brought you all here today?

- To share preliminary data and initial insights
- To share best practices
- To foster dialogue and build networks
- To solve key retail-level challenges
The study is led by the UC Davis PH&EV Center

- Under a grant from the California Energy Commission

- With support from...
“Encourage and support auto dealers to increase sales and leases of ZEVs.” (p. 15)

Dealers not always plugged in about electric cars, Consumer Reports’ study reveals
Also, not all staff seemed enthusiastic about making EV sales; a few outright discouraged it

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In general, I found that the customer service experience to be lacking at most of the dealerships I contacted. I’m used to car lots being shark tanks but suddenly I felt like the least appetizing fish in the sea.
Automaker-dealer relations have a long history

- The preferred model for selling new cars is through independent dealers
- Emerged during automobile’s early history
- Matured around liquid-fueled vehicles
- Franchise laws emerged to protect dealers
  - Established to protect dealers from automakers with greater bargaining power
  - Vary by state
  - Prohibits automakers from bypassing dealer networks
- Arms-length relationship
  - Automakers have no direct control over dealer activities
We suspected that dealers are a link in the chain that might have been overlooked.
Different products require different sales approaches

<table>
<thead>
<tr>
<th>Differentiators</th>
<th>Hybrids</th>
<th>Plug-ins</th>
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</thead>
<tbody>
<tr>
<td>Customer Segments</td>
<td>Different</td>
<td>Different</td>
</tr>
<tr>
<td>Fueling Source</td>
<td>Same</td>
<td>Different</td>
</tr>
<tr>
<td>Fueling Method</td>
<td>Same</td>
<td>Different</td>
</tr>
<tr>
<td>Fueling Availability</td>
<td>Same</td>
<td>Different</td>
</tr>
<tr>
<td>Fueling Time</td>
<td>Same</td>
<td>Very Different</td>
</tr>
<tr>
<td>Fueling Cost</td>
<td>Same</td>
<td>Very Different</td>
</tr>
<tr>
<td>Value Equation</td>
<td>Same</td>
<td>Different</td>
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<tr>
<td>Range between &quot;fills&quot;</td>
<td>Same or Better</td>
<td>Same to Very Different</td>
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<tr>
<td>Range Variation</td>
<td>Slightly Different</td>
<td>Very Different</td>
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<tr>
<td>Human-Machine Interfaces</td>
<td>Same</td>
<td>Different</td>
</tr>
<tr>
<td>Skill-base of Service Techs</td>
<td>Different</td>
<td>Very Different</td>
</tr>
<tr>
<td>Service Delivery</td>
<td>Same</td>
<td>Same to Very Different</td>
</tr>
</tbody>
</table>
What are the main questions we are trying to answer?

1. Is the purchase experience better or worse for PEV buyers?

2. What barriers and drivers affect dealer participation and performance?

3. What resources do dealers need to sell more PEVs?

4. What are the implications for policy?
We obtained two sources of quantitative data

Clean Vehicle Rebate Program (CVRP) Survey

- Inserted questions about the customer experience with dealer or product specialist
- Collected between Oct 2013 and Jan 2014
- 17.5% response rate yielding 7K+ responses
J.D. Power & Associates 2013 Sales Satisfaction Index (SSI) Study

- Measures new car buyer satisfaction with the dealer
  - National random-sample survey
  - Rationale for visiting/buying from selling dealer
  - Time spent during each phase of purchase
  - Key salesperson/dealer performance metrics
  - Future purchase intentions

- 29,040 total records; 13.5% response rate

- Some limitations
The data is informed by dozens of interviews in four primary PEV markets

- **Exploratory focus group with consumers**
- **New car dealers**
  - Sampled based on breadth of make and PEV sales volume
  - Dealer principals and sales staff
- **Automakers**
- **Stakeholders (utilities, governments, others)**
- **60+ interviews and over 80 hours recorded**
  - Site tours
  - Photos
  - Collected collateral
Preliminary data confirms large gap between customer expectations and dealer performance

Source: 2013-2014 ARB CVRP Survey

25% of new car buyers are dissatisfied with the sales experience – 2013 McKinsey & Co. Study
Customer Sales Satisfaction Index (SSI)
Score of Dealer Experience
(1,000 point scale, mass market)

- Conventional Vehicle
- PEV

<table>
<thead>
<tr>
<th>Category</th>
<th>Conventional Vehicle</th>
<th>PEV</th>
<th>Spread</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>798</td>
<td>716</td>
<td>-82</td>
</tr>
<tr>
<td>Delivery</td>
<td>806</td>
<td>732</td>
<td>-74</td>
</tr>
<tr>
<td>Working out the Deal</td>
<td>772</td>
<td>694</td>
<td>-78</td>
</tr>
<tr>
<td>Salesperson</td>
<td>843</td>
<td>760</td>
<td>-83</td>
</tr>
<tr>
<td>Facility &amp; Inventory</td>
<td>765</td>
<td>680</td>
<td>-85</td>
</tr>
</tbody>
</table>

* Note: 10-20 point differential is cause for concern

Source: 2013 J.D. Power & Associates
Sales Satisfaction Index (SSI) Study
Poor purchase experience can have real consequences for automakers and dealers

Source: 2013 J.D. Power & Associates Sales Satisfaction Index (SSI) Study

* PEVs are weighted to the US sales mix of PEVs
Customers expect dealers to know more about PEVs

Source: 2013-2014 ARB CVRP Survey
Customers also value services that help them navigate these ‘beyond the sheet metal’ items

Source: 2013-2014 ARB CVRP Survey
We can view this as a technology adoption problem

Technology Adoption Lifecycle Model

For high-tech innovations, delivering an ecosystem of support products and services is a key component of success

For PEVs, many dealer activities take on added importance

- Mobilizing resources and raising awareness
- Legitimizing the technology
- Understanding customer needs
- Assuring the customer is a good fit for the car
- Relating technology to lifestyle
- Re-framing vehicle price and value proposition
Leading dealers stand apart from their peers

- See PEVs as an opportunity to position the brand
- Top-down support from dealer principals
- Designate motivated employees as ‘product geniuses’
- PEVs as daily drivers → “Drive what you sell”
- Market government incentives
- Robust online presence
- Develop collateral for customers
- Emphasize customer experience
The dealer adoption curve

Technology Adoption Lifecycle Model

(Rogers 1995, Moore 1999)
PEV dealers tell us...

Most of their revenue for PEVs comes from...

- **Volume bonuses**
- **Trade-ins**
- **Warranty**

Little to no revenue on...

- **Up-front profit ("the front end")**
- **Financing**
- **Service & maintenance**
For **pragmatist dealer principals**, PEVs can appear to be a tough proposition

Some PEV dealers tell us...

- Profitability remains questionable
- PEVs represent an insignificant portion of the business
- They contend with high sales staff turnover
- No new revenue sources appear to be on the horizon
- Price pressure

*These can appear to make for a more difficult sell to pragmatist dealers in the early majority*
Sales people have a different calculus from dealer principals

- Many receive no set base pay
- Percent of the “front end” profit (or “mini” absent profits)
- Trade-in and/or option package bonus
- Per-unit bonus (OEM)
- Volume-based bonuses
- Contingent upon meeting customer satisfaction targets
PEVs are a tough proposition for many dealer sales representatives

- Little ‘front end’ profit
- Unfamiliarity
- Government incentives
- Greater time commitment
Key retail-level considerations

- **Learning processes matter more for PEVs**
  - ‘Beyond the sheet metal’ topics
  - How to sell to PEV customers
  - Knowledge retention can be challenging

- **Sales momentum**
  - ‘Dealers are never more confident about selling a car than the day they sold one.’
  - Knowledge reinforcement and confidence-building
  - Detractors: Turnover; supply and incentive uncertainty

- **‘Free riding’**
  - Price-based competition can punish innovation
  - But dealer responses differ
Emerging retail industry trends could give dealers the tools they need to sell PEVs more effectively

- **Use of specialists**
  - E.g. ‘product geniuses’ and ‘delivery techs’
  - Salary-based compensation

- **No-haggle pricing**
  - Reduces uncertainty around price
  - Sales staff can devote more time to product knowledge and calibrating effective sales approaches for PEVs

- **Tablets & apps**
  - Streamlines transactions to reduce time at dealer
  - Improves the customer experience
  - Gives sales staff ready access to multi-source information
Automakers support dealers in a variety of ways for PEVs, but is this enough?

- Product launch training
- Certification programs
- Online resources and tutorials

Newer innovations include...
- Visits from teams of PEV trainers
- 24/7 dealer hotlines

But...
- Metrics are undifferentiated for PEVs
- Knowledge retention and reinforcement may need more attention
Government incentives help but uncertainty undermines dealers

• Incentives are uniformly welcome
• Process is well streamlined (so we’ve heard?)

But…

• Complex and fragmented information
• Uncertainty in program status ‘pulls the rug out’ from dealers
• Discourages evangelizing of benefits to customers
  • Impacts to satisfaction scores
  • Legal liability
Leading dealers offer a few ideas for aligning dealer-level incentives with increasing PEV sales...

1. Establish confidence in availability of incentives

2. Reduce minimum state rebate term to 24 months
   - Magnifies impact of federal tax credit
   - Increases exposure to more customers
   - Returns traffic to dealers sooner

3. Allow dealers to reserve the state rebate upon delivery from OEM
   - Release rebate upon receipt of bill of sale
   - Provides certainty for dealers

4. Consider modest dealer incentives
   - Per-unit sale bonus of $100 - $200 sufficient
   - Tie dealer incentives to performance
Thank you!

QUESTIONS?

Please contact Eric Cahill (eccahill@ucdavis.edu) for more information
Back-up Slides

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